

Message Text

CONFIDENTIAL

PAGE 01 MOSCOW 01103 01 OF 02 241814Z

46

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 SAJ-01 EB-03 SP-02

L-01 INR-05 CIAE-00 RSC-01 /041 W

----- 028639

R 241557Z JAN 75

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 6554

INFO AMCONSUL LENINGRAD

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 1103

LIMDIS

E.O. 11652: GDS

TAGS: ETRD EFIN UR US SW

SUBJECT: INTER-CONTINENTAL HOTEL CORPORATION NEGOTIATIONS WITH USSR

REF: MOSCOW 17295 AND PREVIOUS

1. SUMMARY. INTERCONTINENTAL HOTEL CORPORATION (IHC)
VICE PRESIDENT BLEICH ADVISED EMBASSY JANUARY 23
THAT ALTHOUGH IHC NOW HAS FINAL CONSTRUCTION CONTRACT
TO BUILD HOTEL IN LENINGRAD (TO BE FOLLOWED
BY CONSTRUCTION OF TWO OTHERS IN MOSCOW AND KIEV),
SERIOUS PROBLEMS HAVE ARISEN IN GETTING SOVIETS TO
AGREE ON MANAGEMENT ASSISTANCE AND TRAINING CONTRACTS.
IN RECENT NEGOTIATIONS IN MOSCOW IHC HAS HAD TO MAKE
SO MANY CHANGES FROM STANDARD MANAGEMENT/TRAINING
CONTRACT TO MEET SOVIET DEMANDS THAT IHC HEADQUARTERS
MAY NOT FIND CONTRACT ACCEPTABLE. SOVIETS WILL LET
IHC KNOW FINAL DECISION ON CONTRACT IN ABOUT TWO WEEKS.
THERE IS DANGER THAT ENTIRE DEAL MAY FOUNDER BECAUSE
OF CONFIDENTIAL AGREEMENT BETWEEN IHC AND
SWEDISH FIRM INVOLVED IN CONSTRUCTION OF HOTELS THAT
CONSTRUCTION CANNOT TAKE PLACE UNLESS SATISFACTORY
MANAGEMENT/TRAINING CONTRACT BETWEEN IHC AND SOVIETS
IS ALSO CONCLUDED. EMBASSY DOES NOT BELIEVE THAT SOVIET FOOTDRAGGING
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MOSCOW 01103 01 OF 02 241814Z

ON MANAGMENET ISSUE IS IN ANY WAY CONNECTED WITH DECISION NOT

TO IMPLEMENT 1972 US-USSR TRADE AGREEMENT. END SUMMARY.

2. INTERCONTINENTAL HOTEL CORPORATION (IHC) VICE PRESIDENT ERIC BLEICH (CORPORATE RELATIONS EUROPE), ACCOMPANIED BY LOCAL PANAM REP DRAHORAD CALLED ON AMBASSADOR LATE AFTERNOON JANUARY 23 TO REPORT ON LATEST DEVELOPMENT IN IHC NEGOTIATIONS TO BUILD THREE HOTELS IN LENINGRAD, MOSCOW AND KIEV.

3. REVIEWING PROTRACTED IHC NEGOTIATIONS WITH INTOURIST WHICH HAVE DRAGGED ON THROUGH 1973 AND 1974, BLEICH NOTED THAT APPROVAL FOR SWEDISH FINANCING OF HOTEL CONSTRUCTION HAD BEEN OBTAINED AT END OF 1973, THAT GENERAL AGREEMENT ON CONSTRUCTION FOR ALL THREE HOTELS BE SWEDISH FIRM SHAANSKA CEMENT HAD BEEN SIGNED IN MAY OF 1974, AND THAT SEPARATE CONTRACT FOR CONSTRUCTION OF FIRST HOTEL TO BE BUILT IN LENINGRAD IS NOW DUE TO EXPIRE MARCH 31, 1975. AGREEMENT FOR CONSTRUCTION OF LENINGRAD HOTEL WAS NEGOTIATED IN STOCKHOLM BY DEPUTY FOREIGN TRADE MINISTER ALKHIMOV IN AUGUST 1974. TOTAL TIME OF CONSTRUCTION IS EXPECTED TO BE TWO YEARS.

4. BLEICH SAID MAJOR PROBLEM WHICH HAS NOW ARISEN IS INCREASINGLY NEGATIVE SOVIET ATTITUDE ON IHC PROPOSALS FOR TRAINING AND MANAGEMENT AFTER HOTEL HAS BEEN BUILD, AND ALSO STANDARD IHC REQUIREMENTS FOR REPAYMENT FEE WHICH IS CUSTOMARILY A SMALL PERCENTAGE OF INCOME EARNED FROM ROOM SALES. THESE ARRANGMENTS HAVE BEEN ACCEPTED BY ALL EAST EUROPEAN COUNTRIES IN WHICH IHC HAS BUILT HOTELS--POLAD, CZECHOSLOVAKIA, HUNGARY, ROMANIA--BUT SOVIETS STILL SEEM UNABLE TO UNDERSTAND THEM. IN COURSE OF INTENSIVE NEGOTIATIONS WHICH BEGAN DECEMBER 19 AND HAVE CONTINUED UP TO PRESENT, BLEICH AND COLLEAGUES HAVE HAD TO MAKE SO MANY CHANGES IN STANDARD IHC TRAINING AND MANAGEMENT ASSISTANCE CONTRACT THAT BLEICH IS NOW SERIOUSLY CONCERNED THAT CONTRACT WILL NOT BE ACCEPTED BY IHC HEADQUARTERS. MOREOVER, THERE IS STILL NO ASSURANCE THAT SOVIETS WILL AGREE TO GREATLY MODIFIED CONTRACT. TAKING VERY NON-COMMITTAL LINE, INTOURIST, PROMMASHIMPORT, AND VNESHTEORG BANK, THREE ORGANIZATIONS

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MOSCOW 01103 01 OF 02 241814Z

MAINLY INVOLVED IN CURRENT NEGOTIATIONS, HAVE TOLD BLEICH THAT THEY WILL SEND HIM A LETTER WITH THEIR ANSWER TO HIS PROPOSED TRAINING AND MANAGEMENT CONTRACT IN ABOUT TWO WEEKS. THEY HAVE ALSO HINTED THAT THERE MAY BE FURTHER TALKS AFTER LETTER IS DELIVERED, IMPLYING THAT ALL WILL NOT NECESSARILY BE LOST EVEN IF RESPONSE IN LETTER IS "NO".

5. SCALED DOWN IHC TRAINING AND MANAGEMENT PROPOSALS HAVE INCLUDED INCLUSION - AT SOVIET REQUEST - OF INSTALLATION OF IHC RESERVATIONS SYSTEM PLUS "SUITABLE TRAINING AND MANAGEMENT ASSISTANCE" IN FIRST STAGE OF HOTEL'S OPERATION. IHC WANTS TO HAVE MINIMUM OF THREE OF ITS PEOPLE IN LENINGRAD ALTHOUGH BLEICH HAS AGREE TO SOVIET DEMAND THAT THEY NOT LIVE IN HOTEL. ICH WILL ALSO TRAIN FOUR OR FIVE EXECUTIVE-LEVEL SOVIETS AT ITS HOTELS IN EUROPE FOR ONE YEAR. LOWER-LEVEL PERSONNEL WILL BE TRAINED BY IHC IN USSR. SOVIETS HAVE ALSO RULED OUT WORLDWIDE ADVERTISING WHICH THEY SAY WILL NOT BE NECESSARY, HAVE STRONG RESERVATIONS ABOUT PROMINENT BILLING OF NAME "INTERNCONTINENTAL" AND USE OF FIRM'S CREST.

6. BLEICH ALSO NOTED, WITH CONSIDERABLE CHAGRIN, THAT SOVIETS HAD NOT RAISED THESE OBJECTIONS SO STRONGLY AT EARLIER STAGES OF NEGOTIATION, HAD MERELY SUGGESTED THAT DISCUSSION OF TRAINING AND MANAGEMENT SERVICES BE DEFERRED UNTIL AFTER CONSTRUCTION CONTRACTS ARRANGED.

7. TOWARD END OF CONVERSATION BLEICH REVEALED NEW DEVELOPMENT WHICH HE SAID HAS BEEN CLOSELY HELD SO FAR

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MOSCOW 01103 02 OF 02 241754Z

46

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 SAJ-01 EB-03 SP-02

L-01 INR-05 CIAE-00 RSC-01 /041 W

----- 028350

R 241557Z JAN 75

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 6555

INFO AMCONSUL LENINGRAD

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 2 OF 2 MOSCOW 1103

LIMDIS

AND IS NOT KNOWN TO SOVIETS. THIS IS THAT IHC HAS

CONFIDENTIAL AGREEMENT WITH SKAANSKA THAT CONSTRUCTION OF HOTELS CANNOT TAKE PLACE UNLESS BOTH CONSTRUCTION AND MANAGEMENT/TRAINING CONTRACTS HAVE BEEN CONCLUDED. BLEICH THEREFORE FEARS THAT IF MANAGEMENT TRAINING CONTRACT GOES ON ROCKS, ENTIRE DEAL WILL GO UNDER. HE IS HOPEFUL, HOWEVER, THAT SOME OF SOVIET OFFICIALS WHO ARE MORE UNDERSTANDING OF IHC POSITION, SUCH AS GVISHIANI OF COMMITTEE FOR SCIENCE AND TECHNOLOGY (WITH WHOM IHC HAS BEEN IN TOUCH), WILL INFLUENCE SOVIET NEGOTIATING GROUP TO BE MORE AMENABLE.

8. COMMENT: SOVIET POSITION ON MANAGEMENT/TRAINING CONTRACT IS NOT, OF COURSE, UNEXPECTED AND IHC (IN EMBASSY'S VIEW) HAS HAD AMPLE INDICATION OF WHAT MIGHT HAPPEN BOTH FROM SOVIET COMMENTS IN EARLIER STAGES OF NEGOTIATIONS AND ON BASIS SOVIET ATTITUDE ON HOTEL MANAGEMENT EXPRESSED DURING VISIT OF US TOURISM DELEGATION IN SEPTEMBER 1974 UNDER DIRECTION OF US ASSISTANT SECRETARY OF COMMERCE WASHBURN. EMBASSY DOES NOT REGARD SOVIET FOOTDRAGGING ON THIS DEAL AS CONNECTED IN ANY WAY WITH RECENT DECISION NOT TO IMPLEMENT 1972 US-USSR TRADE AGREEMENT. SOVIETS URGENTLY NEED NEW HOTELS, ESPECIALLY WITH 1980 MOSCOW OLYMPICS ONLY FIVE YEARS AWAY. CONCEPT OF ANY FORM OF

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MOSCOW 01103 02 OF 02 241754Z

WESTERN MANAGEMENT IN WHAT IS NOMINALLY A SOVIET ENTERPRISE IS, HOWEVER, SOMETHING WHICH SOVIET ECONOMIC LEADERSHIP MAY NOT BE ABLE TO FULLY UNDERSTAND AND ACCEPT UNTIL A NUMBER OF YEARS FROM NOW.

STOESSEL

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, NEGOTIATIONS, HOTELS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JAN 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: SmithRJ
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MOSCOW01103
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750027-0764
From: MOSCOW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750123/aaaaatzn.tel
Line Count: 203
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 75 MOSCOW 17295
Review Action: RELEASED, APPROVED
Review Authority: SmithRJ
Review Comment: n/a
Review Content Flags:
Review Date: 11 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 JUN 2003 by BoyleJA>; APPROVED <23 OCT 2003 by SmithRJ>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INTER-CONTINENTAL HOTEL CORPORATION NEGOTIATIONS WITH USSR
TAGS: ETRD, EFIN, UR, US, SW, IHC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006